

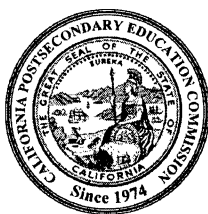
Information Item

Fiscal Policy and Analysis Committee

Status Report on Efforts to Collect Information on Perquisites Provided to University Executives

At the Commission's July meeting, it requested a status report on efforts that will be undertaken to provide complete information regarding the total compensation -- including perquisites -- received by executives at California's public universities relative to the total compensation received by their counterparts at the respective comparison institutions. This status report responds to that request.

Presenter: Karl M. Engelbach.



Status Report on Efforts to Collect Information on Perquisites Provided to University Executives

AT ITS JULY MEETING, the Commission approved the report titled, *Executive Compensation in California Public Higher Education, 2001-02*. In discussing the report, Commission members expressed disappointment that it did not contain complete information regarding the total compensation – including perquisites -- received by executives at California's public universities relative to the total compensation received by their counterparts at the respective comparison institutions. This stemmed from the fact that the Commission had requested this information at its previous meeting and yet little additional data were provided in the final report. In adopting the report, the Commission requested that staff provided a status report at the Commission's October meeting regarding the plans that staff will undertake to provide the requested information.

On Wednesday, August 22, Commission staff met with human resource representatives from the University of California and the California State University to discuss this issue. Staff believes these discussions were both positive and productive.

By way of background, both the University of California and the California State University contract with William M. Mercer, Incorporated -- a consulting firm specializing in compensation issues -- to annually survey the universities' comparison institutions to obtain information about the base compensation provided to their executives as well as the prevalence of perquisites provided. Historically, the survey did not request information about the value of these perquisites, only their prevalence. Additionally, participation in the survey is voluntary and recently increasing numbers of the comparison institutions are declining to participate in the survey.

At August 22 meeting, both the University of California and California State University system representatives committed to either altering their existing annual survey instrument or administering a separate survey to collect information regarding the value of perquisites. Both systems indicated that they would continue to contract with Mercer, Inc. in these efforts and also committed to providing Commission staff with an opportunity to review the survey instruments prior to their distribution to the comparison institutions.

Again, it is important to reiterate that these surveys are voluntary. As a result, some of the comparison institutions may be unwilling to provide the requested information. However, both the University of California and the California State University have committed to undertaking serious attempts to collect the requested data.

As Commission staff had previously reported at the Commission's July 2001 meeting, in May 1998 the Regents of the University of California also requested a report on the total compensation provided their Chancellors relative to the total compensation package provided the chief executives at the University's comparison institutions. The findings from that report are included as an attachment to this item. The report also highlights some of the issues and difficulties associated with collecting and analyzing differing compensation plans.

Commission staff will continue to work collaboratively with the system representatives to obtain the information as requested by the Commission and as required in the Supplemental Report Language. Should it appear unlikely that these efforts will yield the data expected, Commission staff will report that fact to the Commission.

**WILLIAM M.
MERCER**

December 8, 1998

Mr. Wayne Kennedy
Senior Vice President
University of California
1111 Franklin Street
Oakland, CA 94607

Re: Chancellors' Total Compensation Comparison

Dear Mr. Kennedy:

We are pleased to provide our total compensation comparison with respect to the Chancellors of the University of California.

As requested, this comparison compares cash and benefits received by the presidents/chancellors of the Comparison 8 universities and the Chancellors of the University of California. We agreed on using the Comparison 8 in order to expeditiously gather the data, and because we believe that there is a reasonable basis for concluding that the data for this group of universities provides a representative sample for the full set of 26 universities used in the Chancellors' compensation survey. The average value of cash and benefits is shown for each group. The UC Chancellors' compensation used in this comparison is the October 1, 1998, compensation approved by The Regents on September 18, 1998.

Under this comparison, the average total cash and benefits provided by the Comparison 8 is \$326,362 as of July 1, 1998. The average total cash and benefits provided by the University to the Chancellors is \$291,382 as of October 1, 1998.

We wish to point out that the information available on the Comparison 8 presidents/chancellors may not include all terms of compensation and benefits provided because in several cases the relevant universities have not disclosed what they consider to be private information. This contrasts, of course, with UC where we have full access to information.

In addition, we have included an explanation of the retirement benefits provided to presidents/chancellors of the Comparison 8 and to the UC Chancellors. We do not make a direct comparison of these benefits because they are very different types of programs (defined contribution and defined benefit). Any attempt to compare how

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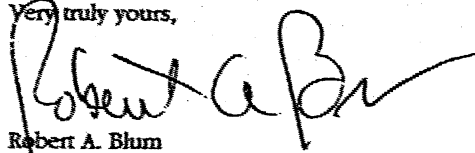
**WILLIAM M.
MERCER**

Mr. Wayne Kennedy
December 8, 1998
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benefit values build under these very different types of retirement plans provided is problematic and requires predictions of market and individual behavior. Nevertheless, we developed a number of retirement benefit examples to assess comparability. The general results were that the UCRP defined benefit plan provides relative advantages to the current Chancellors due to their relatively older age at hire; the Comparison 8 defined contribution plans provide greater portability and more valuable survivor benefits; and the retirement benefits of the Comparison 8 are comparable with the UCRP as a Chancellor's career lengthens.

These facts show that after the October 1, 1998 pay adjustment for the Chancellors, the average amount of cash and benefits that they receive still lags the average amount of cash and benefits received by the presidents/chancellors of the Comparison 8 universities. Further, as discussed above, it is difficult to compare the value of the retirement benefits. In these circumstances, it is our opinion that the recommendations made by the University staff to The Regents for the October 1, 1998 pay adjustment were reasonable.

Very truly yours,



Robert A. Blum

RAB/dj

Enclosure

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TOTAL COMPENSATION ANALYSIS -- "COMPARISON EIGHT"/ UC CHANCELLORS
December 8, 1998

| TOTAL COMPENSATION ELEMENTS (1) | AVERAGE - COMPARISON 8 (7/1/98 compensation) | AVERAGE UC CHANCELLORS (10/1/98 compensation) |
|---------------------------------------|-------------------------------------------------|--------------------------------------------------|
| Cash and benefits | | |
| Base salary | \$296,115 | \$253,133 |
| Additional cash compensation reported | 0 | 0 |
| Health and welfare benefits (2) | \$ 12,459 | \$ 12,111 |
| Supplemental life insurance (3) | \$ 653 | \$ 4,556 |
| Automobile (4) | \$ 5,573 | \$ 8,916 |
| Severance (5) | \$ 8,191 | \$ 12,666 |
| Educational aid (6) | \$ 3,371 | 0 |
| Total | \$326,362 | \$291,382 |

Retirement

Presidents/Chancellors in the Comparison 8 will derive their retirement benefit primarily from a "defined contribution" plan that accrues from an annual contribution to their individual account, plus investment earnings; the UC benefit comes from a "defined benefit" plan that provides Chancellors with a monthly benefit payable for life beginning at a stated retirement age. One major difference is that, under defined contribution plans, the Chancellor's ultimate retirement benefit depends heavily on the performance of the investment markets and the length of time over which income is accumulated. This is not the case under a defined benefit plan, which provides a stated benefit payable for life beginning at a stated age. Any attempt to compare how benefit values build under these very different types of retirement plans provided is problematic and can only be done based on a number of assumptions that, in the end, will not be accurate because they require predictions of future market and individual behavior. (This is different from, e.g., determining the amounts of assets needed to fund a defined benefit plan because that determination is based on the benefits provided to large groups of employees, so individual decisions are of much less importance and different individual actions tend to average out for a large group.) Given this constraint, we developed a number of retirement benefit examples to assess comparability. The general results were:

- The UCRP defined benefit plan provides relative advantages to the current Chancellors due to their relatively older age at hire;
- The Comparison 8 defined contribution plans provide greater portability and more valuable survivor benefits; and
- The retirement benefits of the Comparison 8 are comparable with the UCRP as a Chancellor's career lengthens.

Notes

- (1) Includes compensation elements from CPEC survey that can be readily valued or have material value; see attachment for discussion of other elements from CPEC survey.
- (2) Includes health, dental, life, long term disability, retiree medical; based on estimated employer paid benefits adjusted for male age 58 and assuming family coverage where appropriate; retiree medical is valued as earned over the expected working lifetime.
- (3) This employer-paid benefit results in imputed taxable income for the Chancellors; only 1 Comparison 8 university provides the benefit.
- (4) UC automobile allowance is used to estimate the value of this element for each of Comparison 8 where it applies; the average is lower for Comparison 8 than for UC because not all of the former have this benefit.
- (5) UC severance plan benefit level is used to estimate the value of this element for each of the Comparison 8 where it applies because the UC plan maximum benefit level is set at the maximum BfISA "severance" level; the average is lower for Comparison 8 than for UC because not all of the former have this benefit.
- (6) Valued using the terms of each Institution's plan; the probability of usage was assumed to be 20% and the benefit was valued as earned over the expected working lifetime.

| Perquisites | Comparison 8 | University of California |
|---------------------------------------------|------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| Administrative and other paid leave | not provided | not provided |
| Car phone | not of material value | not of material value |
| Deferred compensation | Information not available | not provided |
| Available driver | not taxable income; for the convenience of the employer | not provided |
| Club dues and memberships | not taxable income; required to perform the job | not taxable income; required to perform the job |
| Employment contract | Information not available | not provided |
| Entertainment expenses | not taxable income; required to perform the job | not taxable income; required to perform the job |
| Esate/ tax planning and preparation | not provided | not provided |
| House maintenance fund | not taxable income; required to perform the job | not taxable income; required to perform the job |
| Housing | not valued; required by the job; no imputed income; 7 of Comparison 8 have it | not valued; required by the job; no imputed income |
| Low interest mortgage loan | monetary information not available; only one institution provides this to its chief administrative officer | not utilized because chancellors must live in university-provided housing as a condition of employment |
| Physical examination | not of material value | not provided |
| Relocation allowance/ transition assistance | not valued; one-time payment and not a permanent compensation element | not valued; one-time payment and not a permanent compensation element |
| Sabbatical leave | not valued; not attributable to administrative position, but to academic appointment | not valued; not attributable to administrative position, but to academic appointment |
| Spouse benefits | not of material value | not of material value |
| Supplemental vacation | not provided | not provided |
| Tenured professorship | not valued; not attributable to administration position but to academic achievement | not valued; not attributable to administration position but to academic achievement and only upon approval of the Academic Senate |

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